

## Legislation puts 'tax year' in place of 'income year'

### Change implemented to simplify tax law

Assembly Bill 1843, sponsored by the Franchise Tax Board, replaces the references to income year with taxable year in all provisions of the Bank and Corporation Law (B&CTL), the Administration of the Franchise and Income Tax Law (AFITL), and the Personal Income Tax Law (PITL).

This bill is operative for all years beginning on or after January 1, 2001. All affected forms and instructions were

revised to replace the term income year with taxable year.

As a result of this statutory change, the franchise tax is computed based on the net income of the taxable year instead of on the net income of the preceding income year, which no longer exists.

To the extent a provision refers to a tax measurement period beginning prior to

*Continued on page 3*

## FLEX YOUR POWER

***Dear Readers: The energy challenge facing California is real and it could not have come at a worse time -- the filing season!***

***Governor Gray Davis' office has asked us to help by getting the word out to all our customers about the importance of conserving energy. The following article contains some simple things that you can do right now to reduce demand and cut your own energy costs.***

California continues to experience electrical shortages and rolling blackouts throughout the state. To reduce the risk, the most important thing we can do in the short term is

reduce our demand for electricity and use energy more efficiently.

The Governor and leaders of the California Legislature are working with utility companies, generators, and consumer groups to fashion long-term solutions for reliable and affordable electricity.

The state has already implemented a plan to reduce consumption by a minimum of eight percent across the board.

We in California have the power of nearly 35 million people and are the sixth largest economy in the world. By reducing our electricity demand

*Continued on page 8*

## Inside. . .

***2001 FTB  
Information  
Directory***

***FTB sponsors  
audit procedure  
meetings  
Page 2***

***Corrections to  
tax forms  
Page 6***

***E-Government  
News  
Page 7***

***And on the Web  
at [www.ftb.ca.gov](http://www.ftb.ca.gov):***

- *Help with SDI*
- *New interest abatement rules*
- *Helping teachers claim retention credit*

## *Tax News*

Volume 00-2 March/April 2001

**TAX NEWS** is a bimonthly publication of the Communications Services Bureau, California Franchise Tax Board. Its primary objective is to provide information to income tax practitioners about state income tax laws, regulations, policies and procedures.

### **Members of the Board:**

Kathleen Connell, Chair  
State Controller  
Claude Parrish  
Chair, State Board of Equalization  
B. Timothy Gage  
Director, Department of Finance

Executive Officer:  
Gerald H. Goldberg  
Editor:  
Marvin Meek

*To update or correct your address or to subscribe to TAX NEWS (send \$12 for a one-year subscription), write:*  
TAX NEWS  
PO Box 2708  
Rancho Cordova, CA 95741-2708  
or call: (916) 845-7070.

*To view TAX NEWS on the Internet or to request an electronic mail subscription, contact FTB on the Internet:*  
[www.ftb.ca.gov](http://www.ftb.ca.gov)

*For information about a client's account, contact:*

**Tax Practitioner Support Unit**  
(916) 845-7057 (phone)  
(916) 845-6377 (fax)

*For recorded answers to questions on California taxes, to order forms or to check on a refund, call:*  
(800) 338-0505  
From outside U.S. (916) 845-6600

*To send a facsimile about a client's account, transmit to:*

**Electronic Correspondence**  
(916) 845-6377

**Information Center:**  
(800) 852-5711

From outside U.S. (916) 845-6500

**Hearing Impaired:**  
TDD (800) 822-6268

**FTB on the Internet**  
[www.ftb.ca.gov](http://www.ftb.ca.gov)  
*Printed on recycled paper.*

# FTB's 'best audit practices' subject of town hall meetings

Our Audit Division is conducting a series of town hall meetings on the subject of "best audit practices."

We are interested in hearing from taxpayers and tax practitioners involved in the income tax audit process.

The focus of the meetings will be on what is working, what can be improved and what can be done differently in our audit process.

The town hall meetings will be held from 9:30 a.m. until 3 p.m. with a lunch break from 11:45 a.m. until 1 p.m. If you plan to attend, please let us know by contacting Ed Campion at [Edwin\\_Campion@ftb.ca.gov](mailto:Edwin_Campion@ftb.ca.gov).

Town hall meetings have already been held in Houston, New York City and Chicago. The remaining town hall meetings will be held at the following locations and dates:

### **March 5**

Los Angeles, CA  
Los Angeles Marriott  
5855 West Century Blvd.  
(310) 641-5700

### **March 7**

Rancho Cordova, CA  
Sun Center – Room 1180A  
10961 Sun Center Drive  
(No telephone number)

### **March 12**

Oakland, CA  
Oakland Marriott  
1001 Broadway  
(510) 451-4000

If you have any questions about the town hall meetings, contact Ed Campion, Multistate Specialist, at the above email address or you can call him at (916) 845-4189.

## Symposium on draft regulation set for April

The second symposium concerning draft Audit Procedures Regulation 19032 has been scheduled for April 23, 2001, in Room 1040, Building 2, of the Franchise Tax Board's central offices located at 9645 Butterfield Way, Sacramento, CA, beginning at 10 a.m.

Draft Regulation 19032 can be located on our website at:  
[www.ftb.ca.gov/legal/regs/19032\\_draft.pdf](http://www.ftb.ca.gov/legal/regs/19032_draft.pdf).

The first symposium concerning the draft regulation was held on December 1, 2000. For further information regarding this notice please contact Colleen Berwick at:

Franchise Tax Board  
Legal Branch

PO Box 1720  
Rancho Cordova CA 95741-1720

You can send her a fax at (916) 845-3648 or send her an email at [colleen\\_berwick@ftb.ca.gov](mailto:colleen_berwick@ftb.ca.gov).

The hearing officer for this symposium is Edwin Campion of the Franchise Tax Board's Audit Division. He can be contacted at:

Franchise Tax Board  
Multistate Audit Program Bureau  
PO Box 1779  
Rancho Cordova CA 95741-1779

Or you can send him an e-mail at [edwin\\_campion@ftb.ca.gov](mailto:edwin_campion@ftb.ca.gov).

# Change simplifies tax law

*Continued from page 1*

the operative date of this bill, the term taxable year means income year under prior law whenever applicable.

The sole purpose of this change was to simplify the law. It will not cause any additional payments of tax or any acceleration of any tax payment from taxpayers. Also, there is no reason to believe this change in California law will change the timing of the deduction

of the franchise tax for federal purposes.

This legislation also amended the provision that exempts new corporations from payment of the minimum franchise tax at the time of incorporation and for its first year.

This change preserved the exemption from the minimum franchise tax for the first tax return.

# Seasons change, so do forms

Amazingly, we are still receiving 1999 forms masquerading as tax year 2000 forms.

Remember, the 2000 version of all our forms are accessible on our website. To access them go to our home page at [www.ftb.ca.gov](http://www.ftb.ca.gov) and select *Forms and Publications*.

If you are using substitute or scannable 2000 California tax forms, please ensure that the tax forms meet our *Substitute Forms Program* requirements. Delays

may occur during processing if these requirements are not met. In some cases, we may not be able to process your clients' forms and will have to contact them directly. have questions about our forms contact Hector Lopez, Substitute Forms Program Co-Administrator at (916) 845-3553. His email address is [Hector\\_Lopez@ftb.ca.gov](mailto:Hector_Lopez@ftb.ca.gov).

Or contact Joyce Goin at (916) 845-3194. Her email address is [Joyce\\_Goin@ftb.ca.gov](mailto:Joyce_Goin@ftb.ca.gov).

## Tax Practitioner Services

Need answers fast? Call any one of our **Tax Practitioner Services Hotline** telephone numbers.

### Tax Practitioner Hotline

Telephone (916) 845-7057

Fax (916) 845-6377

### Personal Income Tax Collection

Fax (916) 845-0494

### Business Entities Collection

Fax (916) 845-0145

### FTB e-file Help Desk

Telephone (916) 845-0353

## FTB joins IRS at field offices during filing season

January 15 through April 16, 2001, we will offer customer services at selected Internal Revenue Service offices providing extended hours.

Since hours and locations are subject to change, check our website before you visit. Go to [www.ftb.ca.gov](http://www.ftb.ca.gov) and click on the *Tax Assistance* button. Look for *FTB Field Offices*, and *IRS Field Offices with Extended Hours*.

## Ask the Advocate



**Debbie Newcomb**  
Taxpayer  
Advocate

**My limited liability company (LLC) wants to change its status, for tax purposes only, from a partnership to a corporation. For federal purposes it's quite easy, the LLC simply checks a box on federal Form 8832, *Entity Classification Election*, and elects to be treated like a corporation for tax purposes.**

**In addition, it must recognize and report the tax consequences resulting from that change in tax classification. (Note: Under proposed federal regulations, if a partnership elects to be taxed as an association that is taxable as a corporation, the partnership would be deemed to contribute all its assets and liabilities to the association in return for stock in the association. The partnership would then be deemed to liquidate by distributing the stock in the association to its partners.)**

**My question is: What do I need to do for the state?**

The election the LLC made on its federal Form 8832, *Entity Classification Election*, automatically applies for state tax purposes. Under California law the tax classification of an entity for federal tax purposes applies for state income and franchise tax purposes. Of course, the tax consequences resulting from that change in classification would also have to be reported for California

*Continued on page 5*

## Visit our new *Tax News* webpage

We've redesigned our *Tax News* webpage to meet your need for timely information.

Go to *Tax News Online* ([www.ftb.ca.gov/education/taxnews/Index](http://www.ftb.ca.gov/education/taxnews/Index)) to get the most current information affecting tax professionals.

*Tax News Online* is updated biweekly. For that reason, we recommend you visit the webpage often.

If you have questions about any of our *Tax News* products or services, call the *Tax News* Help Desk at (916) 845-7070.

## INcreasing customer service

In May, our new nonfiler system, the Integrated Nonfiler Compliance (INC) system will begin issuing *Request for Tax Return* notices to individuals who have been identified as nonfilers for the 1999 tax year.

### What is INC?

The current filing enforcement (FE or Nonfiler) system is made up of two separate systems: personal income tax (PIT FE) and corporation tax (CFE). INC combines these into one system.

INC is a more versatile and efficient nonfiler system because it improves the way we use the information we receive from banks, financial institutions, the Internal Revenue Service and other information reporters.

INC enables us to use more of the information we receive and more accurately link income information with

the correct taxpayer. The new system will include many features, some of which are:

- **Tailored request letters and notice of proposed assessments.** Our notices have a new look. They are developed to clearly explain the specific reason why we are contacting the taxpayer and the date a reply is due.
- **E government services for nonfilers.** Taxpayers can go to our website at [www.ftb.ca.gov/inc](http://www.ftb.ca.gov/inc) and download forms, obtain additional time to file or reply to a notice, obtain additional information on why a return is required, or tell us if a return has already been filed.

Visit our website ([www.ftb.ca.gov](http://www.ftb.ca.gov)) and read *Tax News* (both in print and online) for news and updates about INC.

## Address error found on FTB envelopes

The Franchise Tax Board mailing address printed on some of our commercially pre-printed tax return envelopes is incorrect.

Here are the correct mailing addresses.

If you have a manually prepared Form 540, 540A, 540 2EZ, 540NR, or 540X; **and** you are requesting a refund or claiming *no amount due*, send your return to:

Franchise Tax Board  
PO Box 942840  
Sacramento 94240-0000

If you have a manually prepared Form 540, 540A, 540 2EZ, 540NR, or 540X; **and** you are including a payment, send your return to:

Franchise Tax Board  
PO Box 942867  
Sacramento 94267-0001

If you have computer -prepared (showing a scan band) Forms 540 and 540A, **and** you are requesting a refund or claiming *no amount due*, send your return to:

Image Processing  
Franchise Tax Board  
PO Box 942840  
Sacramento, CA 94240-0009

If you have computer -prepared Forms 540 and 540A, and you are including a payment, send it to:

Franchise Tax Board  
PO Box 942867  
Sacramento, CA 94267-0001

## Tips for LLCs filing Form(s) 100/100S

A small but growing number of limited liability companies are electing to be taxed as corporations.

The process is generally straightforward; the LLC must file federal Form 8832, *Entity Classification Election*, with the Internal Revenue Service in order to make the election.

The election is binding for California purposes and no separate election is allowed. If the LLC also elects S corporation status, the usual rules applicable to

California S corporations are applicable.

Questions have arisen as to how to answer several questions on the Form 100 or Form 100S.

The following procedures will ensure problem-free processing:

- On the initial corporate return leave the *California corporation number* field blank, and,
- Use the full legal name as recorded with the California office of the Secretary of State (SOS). The DBA name should be

entered on question I (Form 100), or question N (Form 100S).

- We will issue the LLC a new seven digit FTB entity I.D. number. Please use this number as the *California corporation number* on future filings and include on all correspondence.
- If convenient, please manually write the file number issued by the SOS above the form title on the first page of the return.

Example: SOS # 200033310099.

## Ask the Advocate

*Continued from page 3*

income and franchise tax purposes, just as they were for federal tax purposes.

If you want the LLC to become a corporation for other than federal and state tax filings, you would need to dissolve the LLC and go through the general incorporation steps for a new corporation with the Secretary of State.

Here's another question about LLCs:

**The 2000 Instructions Form 568, *Limited Liability Company Return of Income* state, "Every LLC that is doing business in California... must file Form 568 unless the LLC: 1) has elected to be taxed as a corporation for federal tax purposes...."**

**Although I couldn't find it in the Form 568 instructions, I believe entities making this election must bounce from Form 568 to Form 100,**

***California Corporation Franchise or Income Tax Return; or a Form 100S, California S Corporation Franchise or Income Tax Return as the case may be.***

LLCs that elect to be taxed as a general corporation should file a Form 100; those that elect to be taxed as an S corporation should file Form 100S. We will include this information in the instructions for Forms 100, 100S and 568 next year.

## Manufacturers' investment credit lives on

The Manufacturers' Investment Credit (MIC) did not expire on January 1, 2001.

The MIC expires on January 1, 2001, or on the January 1 of the first year thereafter that the California Employment Development Department

(EDD) determines that employment in the manufacturing sector does not exceed the 1994 figure by 100,000 jobs.

As of April 2000, EDD determined that employment in the manufacturing sector exceeded the

1994 figure by 204,000 jobs.

Accordingly, the job growth figure substantially exceeds the 1994 level and the MIC will continue to be available.

Refer to California Revenue and Taxation Code sections 17053.49(i) and 23649(i) for more information.



# Corrections to tax year 2000 forms, instructions

Please note the following corrections to tax year 2000 California tax forms and instructions. Should you have any questions about these corrections, contact our Tax Forms Development and Distribution Section at (916) 845-3442.

## Correction

We added the following footnote to several of our forms and instructions:

***If your 65th birthday is on January 1, 2001, you are considered to be age 65 on 12/31/00.***

The new statement appears in the following forms and instructions:

California 540, 540A, Personal Income Tax Booklet Instructions

- Page 4: Do I Have to File? Requirements for Most People. The new statement was added to the column that reads: *and on 12/31/00 my age was...*
- Page 8: Column 1, Line 9 – Senior Exemptions
- Page 13, Column 2, Line 9, Senior Exemptions
- Page 17, Column 1, Credit for Senior Head of Household – Code 163
- Page 20, Voluntary Contribution Fund Descriptions, Column 1, Code 51, California Seniors Special Fund
- Page 60, Additional Information Page, Columns 1 and 2, Homeowners and Renters Assistance Section

California 540A, Special Edition for Seniors Tax Booklet Instructions

- Page 5, Tax Information for Seniors, Benefits for Senior Taxpayers Instructions
- Page 9, Homeowner And Renter Assistance Section, Homeowner Assistance Instructions

- Page 10, Do I Have to File? Requirements for Most People, Instructions
- Page 18, Form 540A, Line 9, Instructions – Senior Exemptions
- Page 25, Step 7, Contributions, 51 – Contribution to California Seniors Specialist Fund

2000 California 540 2EZ Tax Booklet, Instructions

- Page 13, Qualifying to use Form 540 2EZ Residency Table, Filing Status –
- Page 30, Filing Requirements for Most People, Instructions – The column that reads and on 12/31/00, my age was...
- California 540NR 2000 Nonresident or Part Year Booklet, Instructions
- Page 4, Do I Have to File? - Requirements for Most People
- Page 9, Additional Information, Columns 1 and 2, Homeowners and Renters Assistance Section - Homeowner Assistance
- Page 15, Form 540NR, Line 9, Senior Exemptions
- Page 18, Line 33, Credit for Senior Head of Household – Code 163
- Page 13, Instructions for Form 540 2EZ, Column 1, Law Changes for 2000

## Correction

We removed the following section from page 13 of the instructions for Form 540 2EZ:

***The Exclusion of Compensation for Erroneous Convictions.*** Note: This income exclusion is effective for tax years beginning on or after January 1, 2001.

## Correction

We made the following correction to Form 540 2EZ, Page 16, *2000 California 540 2EZ Table, Single – Column 2*:

***Single filing status with two dependents, and with an income of at least \$23,862, but not over \$23,961. The tax liability for this income level as published is one dollar (\$1). The correct tax liability should be zero (\$0).***

## Correction

We made the following correction to Form FTB 3885A, *Depreciation and Amortization Adjustments*

Part II, Election to Expense Certain Tangible Property (IRC Section 179), Line 2, should read:

***Enter the amount from line 12 of the worksheet in the instructions.***

The error is in the 2000 California Package X (paper and the CD-ROM, first release) and the California 540NR 2000 *Nonresident or Part Year* Booklet. The Internet version is correct.

## Correction

We made the following correction to Form FTB 5805F, *Underpayment of Estimated Tax by Farmers and Fishermen*, Instructions.

Column 2, Section D, Item 3 should read:

***The tax for 2000 (from line 6 8) is less than \$200 (\$100 if married filling a separate return); or...***

The error appears in the 2000 Package X (paper and CD-ROM, first release). The Internet version is correct.

## Correction

Schedule P (541), *Alternative Minimum Tax and Credit Limitations Fiduciaries*, Side 3, Section B2, should read:

***B2 Credits that reduce net tax and have no carryover provisions.***

The error appears in the 2000 Package X (paper and CD-ROM, first release). The Internet version is correct.

# E-Government News

## State portal opens at [www.my.ca.gov](http://www.my.ca.gov)

Have you checked out the new California portal, at [www.my.ca.gov](http://www.my.ca.gov)? We were involved in its development and we've already seen brisk traffic between the website and us - - 23,888 as of February 15, 2001. This attractive, user-friendly site brings the one-stop-shopping concept to government! From this single location, visitors can buy a fishing license, check on the status of an income tax refund, find out about e-file, make an appointment with the Department of Motor Vehicles, check code violations at a nursing home, look up a state phone number and more.

## e-Biz center

One of the portal features in development is the eBusiness Center. The concept is to provide access to a wide range of business oriented state information and services 24 hours a day, seven days a week, from one location. To make sure that the site is developed as an effective, useful tool for business, we need to hear from you. You can provide input by completing a predevelopment survey located at [www.ebizcenter.ca.gov/business-survey.html](http://www.ebizcenter.ca.gov/business-survey.html).

## How will filing change by 2010?

In 1995 we published our first look into the future of state income tax filing, *Filing 2010, The Future of State Income Tax Filing*. Since that time we have seen more technological change and greater public acceptance than we could have anticipated from our 1995 vantage point. These changes are so significant that we felt compelled to revisit our 1995 assumptions. The result is the *2nd Edition of Filing 2010, The Future of State Income Tax Filing*. You can get your copy from our website at

[www.ftb.ca.gov](http://www.ftb.ca.gov). We welcome your comments and input. Email Linda Bunker at: [linda\\_bunker@ftb.ca.gov](mailto:linda_bunker@ftb.ca.gov)

## Pub 1345 available on the Web

Publication 1345, *2000 e-file Handbook for Authorized e-file Providers of California Individual Income Tax Returns*, is now available on our Website at [http://www.ftb.ca.gov/elecserv/efile/efile\\_forms.htm](http://www.ftb.ca.gov/elecserv/efile/efile_forms.htm)

## Customer Service Number (CSN)

As planned, our CSN authentication program is up and running for online e-file and TeleFile...165,509 inquiries as of February 16, 2001. And taxpayers seem to approve. The CSN postcard we mailed in December to 400,000 taxpayers who e-filed online last year included an optional three-question survey designed to gather taxpayer reaction to the CSN concept. To our surprise, within days of the mailing, several thousand people expressed their opinions by filling out the survey, putting a stamp on the postcard and mailing it back. In fact, cards are still arriving. Here are the unscientific, but interesting, results:

- Ninety-eight percent said they appreciated the added security to the e-file program.
- Forty-two percent said in future years they would like to choose their own CSN
- Ninety-one percent said they would like to use my CSN to do all of their electronic transactions with us.

## Key telephone numbers

The phone number for getting an CSN is (800) 338-0505  
e-file Help Desk is (916) 845-0353

## e-File numbers are going up!

e-file numbers are *up* even though filing for all personal income tax returns is down by about 13 percent, year-to-date. . In fact, 58% of all personal income tax returns filed so far were e-filed.

## 4th Annual e-file Software Workshops and Exhibits

These joint events we conduct with the Internal Revenue Service generate more and more interest each year among tax professionals who are serious about joining the e-file program and want to find out more about e-file software. In fact, we had so much demand for the Burbank location last summer that we had to book a second session to accommodate everyone.

If you haven't participated in prior years, now is the time to get on board for 2001! We plan to offer eight one-day sessions in seven California locations during June. The typical schedule for the day is 9am - 4pm. The first half of the day is filled with information about the IRS and FTB e-file programs - news, changes, requirements, etc. The second half of the day is all yours and features a panel of software industry experts. This is where you get a chance to describe your product directly to tax professionals.

Here's the proposed schedule. Check back at our website at [www.ftb.ca.gov](http://www.ftb.ca.gov) for information about where the events will be held.

June 13	Burbank
June 14	Burbank
June 15	Riverside
June 16	Escondido
June 19	Sacramento
June 20	San Francisco
June 21	San Jose
June 22	Oxnard

---

## Flex your power

*Continued from page 1*

we can help avoid shortages and lower energy bills. All you have to do is

### ***FLEX YOUR POWER.***

Here are simple things that you can do right now to reduce demand and cut your own energy costs:

#### **At home:**

- Turn thermostats down to 68 degrees or below. Reduce settings to 55 degrees before going to sleep or when away for the day. (For each one degree, you'll save up to five percent on your heating costs.)
- Turn off non-essential lights and appliances.

- Avoid running large appliances such as washers, dryers, and electric ovens during peak demand hours from 5 a.m. to 9 a.m. and 4 p.m. to 7 p.m.
- Close shades and blinds at night to reduce the amount of heat lost through windows.
- Buy Energy Star appliances, products, and lights.

#### **In the office:**

- Turn thermostats down to 68 degrees or below. Reduce settings to 55 degrees at the end of the day. (For each 1 degree, you'll save up to 5 percent on your heating costs.)
- Turn off all unnecessary lights, especially in unused offices and conference rooms and turn down remaining lighting levels where possible.
- Set computers, monitors, printers, copiers, and other business

equipment to their energy-saving feature, and turn them off at the end of the day.

- Minimize energy usage during peak demand hours from 5 a.m. to 9 a.m. and 4 p.m. to 7 p.m.
- Buy Energy Star appliances, products, and lights.

If you're interested in the legislation involving California energy, the California Energy Commission's Office of Governmental Affairs tracks all legislation that affects energy production and consumption, the energy industry, energy consumers and the structure of energy regulatory agencies. Their website address is: [www.energy.ca.gov/commission/legislation.html](http://www.energy.ca.gov/commission/legislation.html).

If you'd like more information about California's energy situation or more conservation tips, visit the Official California Website at [my.ca.gov](http://my.ca.gov).

Address Service Requested

PO BOX 2708  
RANCHO CORDOVA CA 95741-2708

*Tax News*

